

2022-2023 Budget: Baseline Budget Overview

June 28, 2021





Policy Consideration:

Does the Council have preliminary feedback on the Baseline Budget and tax levy needs?

City of Financial Distinction

The City of Rochester has a AAA Rating

Rochester has received a Certificate of Achievement for Excellence in Financial Reporting for almost 50 years, the longest in the state of Minnesota.

2021 ADOPTED BUDGET

BUDGET IN BRIEF

The 2021 adopted budget is \$472,010,610 million. General Fund expenditures account for \$96.9 million of the \$472 million and the six-year CIP totals \$713.6 million.

New in 2021 is the inclusion of Rochester Public Utilities' (RPU) budgets with all other City budgets. This step is to ensure a comprehensive financial picture is included in the same document for the benefit of the Mayor, City Council, community, and Rochester team.

City of Rochester Budget 2021, inclusive of RPU



BUDGET FORMULA





Team Rochester

Draft: 2/26/2021 Final: when Council advance is scheduled

Budget, Capital Improvement, and Long Term Financial Management Plan Process

PHASE 1: Preparation

March 1 through April 16

PHASE 2: Prioritization

April 5 through May 7

PHASE 3: Development

May 28 through July 16

PHASE 4: Recommendation

July 19 through October 11

PHASE 5: Adoption September 20 through December 13



Current Schedule

Budget Phase	Date	Focus
3: Development	06/28/2021 Study Session	Comprehensive Annual Financial Report and Audit Review/2021-2022 Baseline Budget Update
4: Recommendation	07/19/2021 Study Session	Revenue Enhancement & Diversification
4: Recommendation	08/23/2021 Study Session	Presentation of City Administrator's Recommended 2021-22 Operating Budget
4: Recommendation	08/30/2021 Study Session	Discussion of City Administrator's Recommended 2021-22 Budget and Presentation of 2022-2027 Capital Improvement Plan
4: Recommendation	09/13/2021 Study Session and Council Meeting	Discussion of City Administrator's Recommended 2021-22 Budget and Discussion of 2022-2027 Capital Improvement Plan
4: Recommendation	09/20/2021	Approve Preliminary Budget and Set Preliminary Levy
5: Adoption	11/08/2021	Review of final budget, CIP, & decision packages

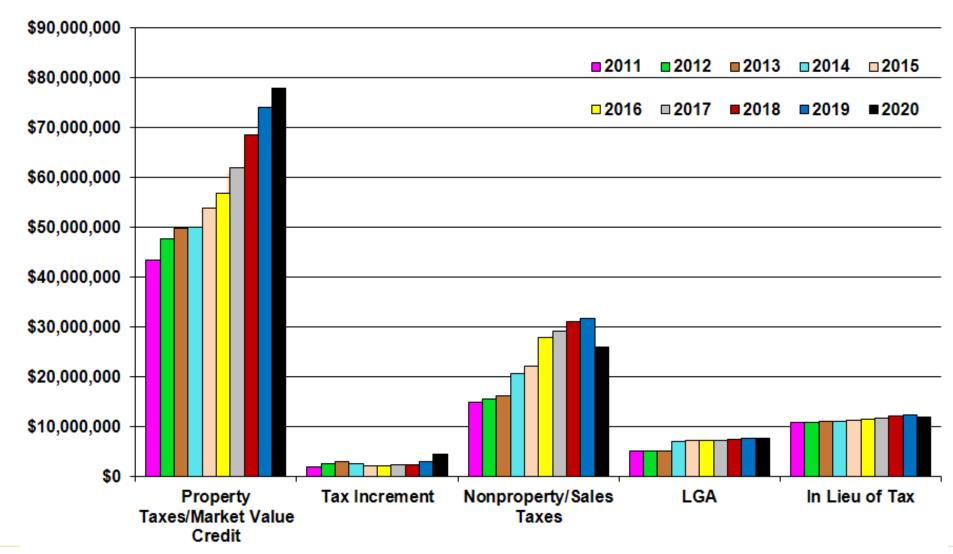


Revenue Impacts in Levy-Supported Operations

- Lodging Tax: down approximately 46% since pandemic
- LGA: Formula decrease of \$1.5 million (active legislative efforts)
- In-Lieu of Tax payments: declining trend 2020 actual
- Building Permit Revenue: down \$591K (19%) from 2019
- Property Tax Delinquency: ~\$2 million
- Liquor License: Budgeted increases not implemented

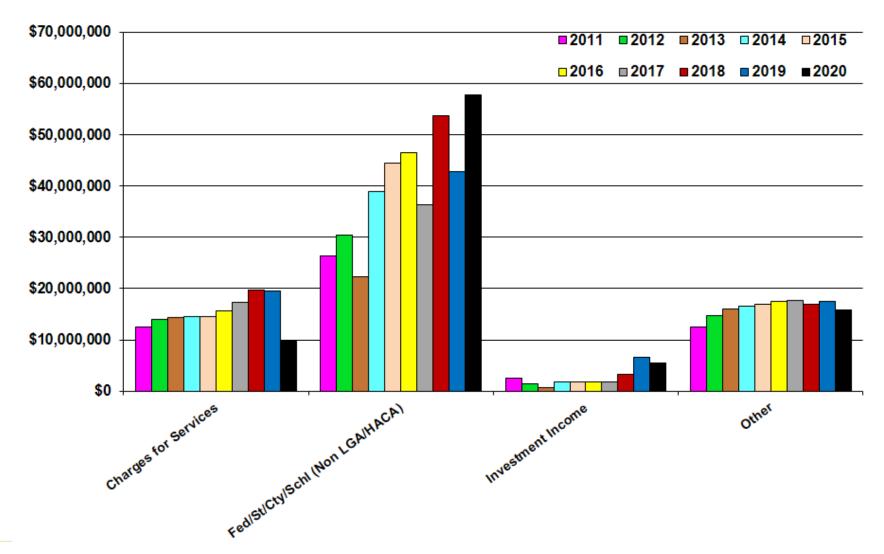


Government Funds – All Revenues





Government Funds – All Revenues





Pay 2022 Property Valuation Growth – EMV Certification

New Construction	1.6%		
+ Valuation Assessment	2.9%		
Total Growth in EMV	4.5%		



Current Baseline Status

- 8.3% increase in Baseline Budget before "levy stabilization" (ARPA/Reserves)
 - Revenue shortfalls LGA, Lodging Tax, Charges for Services, Permits, in-lieu (or include same slide as last time?)
 - Prior year use of reserves to balance
 - Wage and Step Adjustments
 - Contracted service increases or known supply increases



Lodging Tax Recovery

City of Rochester Hotel Tax Six-Year Projection									
Year	Market Occupancy	Annual ADR	Rooms in Market	Hotel Rooms Revenue	Hotel Tax Rate	Hotel Tax Collected	Hotel Tax into Operating Budget		
Original 2020	49%	\$94	5,250	\$88,262,475	7%	\$6,178,373	\$3,530,499		
Revised Q4 2020	38%	\$107	5,250	\$80,882,905	7%	\$5,661,803	\$3,235,316		
2021	45%	\$107	5,500	\$96,661,125	7%	\$6,766,279	\$3,866,445		
2022	56%	\$110	5,500	\$123,662,000	7%	\$8,656,340	\$4,946,480		
2023	59%	\$113	5,500	\$133,840,025	7%	\$9,368,802	\$5,353,601		
2024	61%	\$115	5,500	\$140,826,125	7%	\$9,857,829	\$5,633,045		
2025	62%	\$117	6,000	\$158,862,600	7%	\$11,120,382	\$6,354,504		
2026	63%	\$119	6,300	\$172,393,515	7%	\$12,067,546	\$6,895,741		
Year-end 2020	39%	104.51	5,400	\$80,953,760	7%	\$5,666,763	\$3,238,150		

^{*2021} Funding Commitment for Lodging Tax Into Operating Budget: \$4.1M



Current Levy Needs for Baseline Budget

Long Range Financial Plan: Projected Levy Need 2022-2026								
	2022	2023	2024	2025	2026			
Projected Levy Increase to Support Current Operations	8.3%	2.14%	3.90%	3.83%	5.55%			
One Time Funding Prioritized for Levy Stability	3.50%	2.63%	1.75%	0.88%	0.35%			
Net Levy Prior To Decision Packages	4.8%	-0.49%	2.15%	2.95%	5.2%			
Final Budget After Service Enhancements (Decision Packages)	?	?	?	?	?			

- Large sources of revenue loss in tax levy supported funds include state aids, lodging tax, and the one time use of \$2m in reserves to balance the 2021 budget.
- Does not reflect final budget adoption or any decision packages approved by the Council. It reflects existing operations only. This does not reflect any reestablishment of cost containment reductions, decision packages, or other items beyond current service levels.





201 4th Street SE, Rochester, MN 55904 www.rochestermn.gov

Strategic Priority: Affordable Living

Strategic Priority: Economic Vibrancy and Growth Management

Strategic Priority: **Quality Services for Quality Living**

Areas of focus

- Housing variety and affordability
- **Transportation options and access**
- Equitable regulatory landscape and creative incentives
- Access to opportunities and amenities

Areas of focus

- Create clarity, alignment and unity with economic development partners in defining city leadership and community values
- Establish competitive and sustainable approach to effectively allocating DMC resources, Legislative allocations, and city revenue
- **Develop implementation tools and strategies for Comprehensive Plan to ensure current decisions reflect** future projections
- Adopt design guidelines that better reflect Council and community values

Areas of focus

- **Cultural and Recreational opportunities** that provide access and equity
- The organization and Services reflect changing demographics and needs identified by community
- Operations are sustainable, integrated, and easy to navigate
- Service delivery is optimized, cost effective, and reflect or foundational **Principles**



Decision Packages -

- Range of DPs
 - Restoration of service to "pre-pandemic" levels
 - Quality of Service/Efficiencies Enhancements held back
 - Council Priorities / Strategic Direction

Cost Containment Normalizing

- \$1.1 Million Frozen Positions approved for 2021 but frozen
- \$ 175,000 Seasonal Employees cut
- \$ 457,000 Overtime Cuts
- \$ 361,000 Other operations cuts (training, supplies, equipment)



Representative Decision Packages: Alignment with Foundational Principles & Strategic Priorities

Foundational Principles

Fiscal Responsibility & Sustainability

- Facilities Reinvestment Fund
- City Wide AED Program coordinated by RFD (RFD, RPD, RPU, and Citywide safety)
- •Telephone system replacement and contact center

Public Safety

- •Fund existing attorney II position which was temporarily unfunded in 21 due to pandemic
- Fire Department GIS support
- •OEM Request for New Service to Alerting System
- Police Records
 Management System (RMS)

 Technology Upgrade
- •Crime Scene 3D Laser Scanner
- •Community Services Officer
- Parking Enforcement

Social Equity

- Diversity, Equity, & Inclusion Program Efforts
- Fire Department Diversity Strategy

Strategic Priorities

Economic Vibrancy & Growth Management

- •Operations and Maintenance - Heart of the City
- •Operations & Maintenance Costs Chateau Theatre

Quality Services for Quality Living

- Customer Service Enhancement - 311 Implementation
- Agency Counter
 Performance Dashboard
- Agency Counter Code Enforcement dashboard
- •HR Team FTEs
- New position: IT Analyst -Junior Application Analyst -1.0 FTE
- Circulation Services -Library
- Temp. Salaries Forestry, Parkway Landscape Maintenance, CBD Maintenance, Recreation Center, National Volleyball Center, Graham Arena

All

- Sustainable Strategies DC
- Renewal of Zencity Membership



Other Issues Being Evaluated As the Recommended Budget Is Being Developed

- 1. Funding Requests including Rochester Sports, RAEDI, and Mayo Civic Center/Experience Rochester
- 2. 125 Live Evaluation and One Roof Implementation
- 3. CIP including preferred approach to park referendum investment
- 4. Tax capacity available in September or October. This informs any shifts in tax base and new tax base contributing to services.
- 5. Facility evaluation, reinvestment and operations
- 6. Approach to funding future flood control maintenance





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